

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Lundington Mass Transportation Authority		County Ludington	
Fiscal Year End 9/30/07		Opinion Date 11/27/07		Date Audit Report Submitted to State 01/26/08			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	None		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930		
Street Address 731 South Garfield Ave		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris, CPA		License Number 1101024798

LUDINGTON MASS TRANSPORTATION AUTHORITY

REPORT ON FINANCIAL STATEMENTS
(with additional information)

SEPTEMBER 30, 2007 AND 2006

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Independent Auditor's Report

To the Board of Directors
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the accompanying financial statements of the business-type activities of Ludington Mass Transportation Authority, the "Authority", as of and for the year ended September 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ludington Mass Transportation Authority, as of September 30, 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 2007, on our consideration of Ludington Mass Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ludington Mass Transportation Authority's basic financial statements. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effect of expensing additional depreciation due to a change in depreciable life as described in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 27, 2007

Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2007

This section of the Authority's annual financial report presents its discussion and analysis of the Authority's financial performance during the fiscal year ended September 30, 2007. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2007, by \$3,466,090. Of this amount, \$975,735 represents net assets which are not invested in capital assets.
- The Authority's total net assets decreased by \$18,847. This decrease results mainly from increase in fuel and insurance costs.
- The Authority remained free of long-term debt during the period.
- Federal reimbursement of eligible expenses remained at 17%.
- State reimbursement of eligible expenses decreased to 38.62% from 39.25%.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expense are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis of the Ludington Mass Transportation Authority

For the year ended September 30, 2007, assets exceeded liabilities by \$3,466,090. The Authority is a capital-intensive enterprise, and approximately 72% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2007

Figure A-1 *Condensed Statement of Net Assets*

	<u>9/30/07</u>	<u>9/30/06</u>
Assets		
Current	\$ 1,083,657	\$ 1,010,898
Non-Current	2,490,355	2,591,987
	<u>\$ 3,574,012</u>	<u>\$ 3,602,885</u>
Liabilities		
Current	\$ 107,922	\$ 117,948
Net Assets		
Invested in Capital Assets	2,490,355	2,591,987
Unrestricted	975,735	892,950
	<u>3,466,090</u>	<u>3,484,937</u>
Liabilities and Net Assets	<u>\$ 3,574,012</u>	<u>\$ 3,602,885</u>

The Authority's net assets decreased by \$18,847 in 2007. The following is a summary of Revenues, Expenses and Changes in Net Assets which show how the \$18,847 decrease in net assets occurred.

Figure A-2 *Changes in Net Assets from Operating Results*

For the year ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue	\$ 279,592	\$ 256,859
Operating expenses	1,527,482	1,481,558
OPERATING (LOSS)	(1,247,890)	(1,224,699)
Taxes	237,288	232,002
Other Nonoperating revenue	807,961	715,616
Total Nonoperating revenue	1,045,249	947,618
Income (Loss) Before Capital Contributions	(202,641)	(277,081)
Capital Grants	183,794	157,565
CHANGE IN NET ASSETS	<u>\$ (18,847)</u>	<u>\$ (119,516)</u>

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2007**

The following table shows 2007 revenue compared to 2006:

Revenues	2007 Amount	2007 Percent Of Total	2006 Amount	2006 Percent Of Total	Increase (Decrease) From 2006
Operating Revenue	\$ 279,592	21.10	\$ 256,859	21.33	\$ 22,733
Interest Income	51,216	3.87	32,948	2.73	18,268
Property Tax	237,288	17.91	232,002	19.26	5,286
Federal Assistance	241,635	18.24	203,990	16.93	37,645
State Assistance	504,234	38.06	462,571	38.40	41,663
Maintenance Service Revenues	6,765	.52	13,740	1.14	(6,975)
Gain on Sale of Assets	4,111	.30	2,367	0.21	1,744
Total Revenue	<u>\$ 1,324,841</u>	<u>100.00</u>	<u>\$ 1,204,477</u>	<u>100.00</u>	<u>\$ 120,364</u>
Capital Grants					
Federal	\$ 149,435	81.31	\$ 126,052	80.00	\$ 23,383
State	34,359	18.69	31,513	20.00	2,846
Total	<u>\$ 183,794</u>	<u>100.00</u>	<u>\$ 157,565</u>	<u>100.00</u>	<u>\$ 26,229</u>

The federal reimbursement rate remained at 17.0% for eligible expenditures and the State reimbursement rate decreased to 38.62%.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department – The department describes the major function areas of the Authority and includes:

Operations – Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance – Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration – All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation – Estimated pro-ratio of the cost of capital assets over the useful life of the asset.

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2007**

The following table shows the expenses for 2007 compare to 2006 by department:

Department	2007 Amount	2007 Percent Of Total	2006 Amount	2006 Percent Of Total	Increase (Decrease) From 2006
Operations	\$ 745,741	48.82	\$ 730,734	49.32	\$ 15,007
Maintenance	176,534	11.56	177,414	11.97	(880)
Administration	296,649	19.42	278,967	18.83	17,682
Depreciation	308,558	20.20	294,443	19.88	14,115
Total Expenses	<u>\$ 1,527,482</u>	<u>100.00</u>	<u>\$ 1,481,558</u>	<u>100.00</u>	<u>\$ 45,924</u>

- Operations costs increased due to providing services through a reverse commute grant in 2007 and not in 2006.
- Maintenance costs decreased due to a replacement of the mechanic at a lower rate of pay.

Operating Expense by Object – The object is the classification of expenses by type of item. The following table shows expenses for 2007 compared to 2006 by object:

Object	2007 Amount	2007 Percent Of Total	2006 Amount	2006 Percent Of Total	Increase (Decrease) From 2006
Wages and Benefits	\$ 861,506	56.40	\$ 840,976	56.76	\$ 20,530
Services	72,492	4.75	50,037	3.38	22,455
Supplies and Materials	187,015	12.24	179,565	12.12	7,450
Utilities	36,118	2.36	33,432	2.26	2,686
Casualty and Liability	51,428	3.37	74,383	5.02	(22,955)
Miscellaneous	8,373	.55	5,550	0.37	2,823
Lease and Rentals	1,992	.13	3,172	0.21	(1,180)
Depreciation	308,558	20.20	294,443	19.88	14,115
Total	<u>\$ 1,527,482</u>	<u>100.00</u>	<u>\$ 1,481,558</u>	<u>100.00</u>	<u>\$ 45,924</u>

- Services increased due to having a reverse commute grant in 2007 and not in 2006.
- Supplies expenses increased due to higher fuel prices.
- Casualty and liability insurance decreased in 2007 compared to 2006 due to having to pay a retrospective payment in 2006 to the insurance pool for potential litigation involving members of the liability pool.

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2007**

Capital Assets

The Authority's investment in capital assets as of September 30, 2007, amounted to \$2,490,355 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2007 included the following:

- Three buses \$170,088
- Furniture for Community Room \$13,802
- Digital Copier \$8,207
- Scissor Lift \$8,564

Factors Bearing on the Authority's Future

With the current economic condition in the country and especially the State of Michigan, LMTA management anticipates the following:

- Federal Operating assistance is anticipated to be 16% of eligible operating expenses in 2008.
- State operating assistance is anticipated to be 39.25% of eligible operating expenses in 2008. However, due the economic uncertainty in the State of Michigan we expect the operating assistance to be adjusted to 37% before the end of the fiscal year.
- As with other employers, the LMTA continues to face increased employee benefit costs. It is safe to anticipate another increase in 2007.
- The LMTA currently belongs to the Michigan Transit Pool and was one of the founding members. The result of belonging to an insurance pool over the last several years has saved the LMTA thousands of dollars in insurance premiums. Unfortunately all members of the pool share in excessive losses and these excessive losses are unpredictable. For several years the MTP self insured for \$1,000,000 and purchased excess insurance for \$4,000,000. Due to world events and 9/11 the reinsurers have raised rates to a point that \$4,000,000 in reinsurance was no longer affordable. To combat the large increase in reinsurance the MTP has decided to self insure for \$2,000,000 and reinsure for \$2,000,000. This decision has increased the cost of insurance to the LMTA. However, the LMTA believes it will save money over purchasing commercial insurance by continuing to purchase insurance through the MTP.

Contacting the Public Transit's Financial Management

This financial report is designed to provide the Ludington Mass Transportation Authority's citizens, taxpayers, and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ludington Mass Transportation Authority, 5545 W. Carr Street, Ludington, MI 49431.

LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 977,528	\$ 908,821
Receivables:		
Accounts	13,697	20,497
Due from Other Governments	64,057	52,935
Prepaid expenses	17,292	17,844
Inventories	<u>11,083</u>	<u>10,801</u>
Total Current Assets	1,083,657	1,010,898
PROPERTY AND EQUIPMENT, less accumulated depreciation	<u>2,490,355</u>	<u>2,591,987</u>
TOTAL ASSETS	<u><u>\$ 3,574,012</u></u>	<u><u>\$ 3,602,885</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 39,766	\$ 30,725
Accrued liabilities:		
Accrued vacation	1,308	2,618
Payroll withholdings	1,834	1,710
Salaries and wages	14,031	10,129
Due to Other Governments	6,445	10,111
Deferred Revenue	<u>44,538</u>	<u>62,655</u>
Total Current Liabilities	<u>107,922</u>	<u>117,948</u>
NET ASSETS:		
Invested in Capital Assets	2,490,355	2,591,987
Unrestricted	<u>975,735</u>	<u>892,950</u>
Total Net Assets	<u>3,466,090</u>	<u>3,484,937</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,574,012</u></u>	<u><u>\$ 3,602,885</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES	\$ 279,592	\$ 256,859
OPERATING EXPENSES	<u>1,527,482</u>	<u>1,481,558</u>
Operating (Loss)	<u>(1,247,890)</u>	<u>(1,224,699)</u>
NON-OPERATING REVENUES:	<u>1,045,249</u>	<u>947,618</u>
NET INCOME (LOSS)	<u>(202,641)</u>	<u>(277,081)</u>
CAPITAL CONTRIBUTIONS		
Federal Financial Assistance	149,435	126,052
State of Michigan	<u>34,359</u>	<u>31,513</u>
Total Capital Contributions	<u>183,794</u>	<u>157,565</u>
DECREASE IN NET ASSETS	(18,847)	(119,516)
TOTAL NET ASSETS, beginning of year	<u>3,484,937</u>	<u>3,604,453</u>
TOTAL NET ASSETS, end of year	<u><u>\$ 3,466,090</u></u>	<u><u>\$ 3,484,937</u></u>

The accompanying notes are an integral part of this statement.

LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 286,392	\$ 255,800
Cash payments to suppliers for goods and services	(556,201)	(555,435)
Cash payments to employees for services	<u>(650,695)</u>	<u>(621,547)</u>
Net cash used in operating activities	<u>(920,504)</u>	<u>(921,182)</u>
CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES:		
Local tax levy received	219,170	251,920
Maintenance service receipts	6,766	13,740
Operating grants received	<u>731,080</u>	<u>762,301</u>
Net cash provided by non-capital financing	<u>957,016</u>	<u>1,027,961</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(206,926)	(191,961)
Proceeds from sale of fixed assets	4,111	2,367
Capital grants received	<u>183,794</u>	<u>157,565</u>
Net cash provided (used) by capital and related financing activities	<u>(19,021)</u>	<u>(32,029)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>51,216</u>	<u>32,948</u>
NET INCREASE (DECREASE) IN CASH	68,707	107,698
CASH, beginning of year	<u>908,821</u>	<u>801,123</u>
CASH, end of year	<u><u>\$ 977,528</u></u>	<u><u>\$ 908,821</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
RECONCILIATION OF OPERATING LOSS TO NET
CASH USED IN OPERATING ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating income (loss)	<u>\$ (1,247,890)</u>	<u>\$ (1,224,699)</u>
Adjustments to reconcile operating loss to net cash provided		
By operating activities:		
Depreciation	308,558	294,443
Accounts receivable	6,800	(1,059)
Inventories	(282)	(125)
Prepaid expenses	552	18,933
Accounts payable	9,041	(9,779)
Accrued expenses	<u>2,717</u>	<u>1,104</u>
Total adjustments	<u>327,386</u>	<u>303,517</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (920,504)</u></u>	<u><u>\$ (921,182)</u></u>

The accompanying notes are an integral part of this statement.

LUDINGTON MASS TRANSPORTATION AUTHORITY NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Ludington Mass Transportation Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Ludington Mass Transportation Authority is organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 196. The Transportation Authority has the capability to provide public transportation to the general public in the area of Ludington and Scottville, Michigan, and has the authority to provide this service throughout Mason County. Ludington Mass Transportation Authority does receive city millage for operations, and both City of Ludington and City of Scottville governing bodies appoint Ludington Mass Transportation Authority Board members. Ludington Mass Transportation Authority's financial statements are not included in either the City of Ludington's or the City of Scottville's audit reports. Only Ludington Mass Transportation Authority's operations are included in this report.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion for the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statement (i.e., the statement of net assets and the statement of revenue, expenses and change in net assets) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts – invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

- (1) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal is fully guaranteed by the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Administration.
- (3) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- (4) In United States government of Federal agency obligation repurchase agreements.
- (5) In bankers' acceptances of United States banks.
- (6) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Capital Assets and Depreciation

Capital assets are defined by the transportation authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets with an initial, individual cost of less than \$5,000 and/or an estimated useful life of less than one year and purchased with Federal and/or State grants are expensed and subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance". Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by an Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation expense included to be reimbursed with State Funds only include assets purchased with local funds where the useful life of the asset has been approved by the Bureau of Passenger Transportation. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

Inventory and Prepaid Items

Inventories of motor vehicle lubricants and parts are valued at the lower of cost or market on a first-in, first out basis. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Deferred Revenue

The deferred revenue represents taxes received that are not recognized until the following year.

Compensated Absences

The Authority does not allow the carryover of vacation benefits beyond the year ended. For September 30, 2007, however the Board approved the carryover of vacation benefits for one employee totaling \$1,308.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 2: PROPERTY & EQUIPMENT

Major classes of property and equipment consist of the following:

Business-type activities	Balance 09/30/06	Increases	Decreases	Balance 09/30/07
Capital assets, not being depreciated				
Land	\$ 100,971	\$	\$	\$ 100,971
Capital assets, being depreciated				
Buildings	2,265,875			2,265,875
Vehicles	1,097,731	170,088	44,601	1,223,218
Operations	21,550			21,550
Bus and garage equipment	163,474	8,564		172,038
Furniture, fixtures & equipment	112,952	28,274		141,226
Total capital assets being depreciated	3,661,582	206,926	44,601	3,823,907
Less accumulated depreciation for:				
Buildings	227,118	113,558		340,676
Vehicles	771,016	163,752	44,601	890,167
Operations	2,873	4,310		7,183
Bus and garage equipment	95,733	15,849		111,582
Furniture, fixtures & equipment	73,826	11,089		84,915
Total accumulated depreciation	1,170,566	308,558	44,601	1,434,523
Total capital assets, being depreciated, net	2,491,016			2,389,384
Business-type activities capital assets, net	\$ 2,591,987			\$ 2,490,355

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

Capital assets were purchased with two sources of funds as follows:

	Purchased with Authority Funds	Purchased with Capital Grants	Total
Land and Buildings	\$ 344,583	\$ 2,022,263	\$ 2,366,846
Vehicles	17,865	1,205,353	1,223,218
Operations	21,550		21,550
Bus and garage equipment	27,111	144,927	172,038
Furniture, fixtures & equipment	95,205	46,021	141,226
	506,314	3,418,564	3,924,878
Less accumulated depreciation	114,030	1,320,493	1,434,523
Net Property and Equipment	\$ 392,284	\$ 2,098,071	\$ 2,490,355

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: RECEIVABLES

Receivables as of year end for the Authority are as follows:

Account receivable	<u>\$ 13,697</u>
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The allowance for doubtful accounts is not considered to be material for disclosure.

NOTE 4: PROPERTY TAXES

The Authority levies a voter-approved tax for the City of Ludington and City of Scottville. The voters granted the authority to levy up to 0.9254 mills through 2007 for the City of Ludington and up to 1.2342 through 2008 for the City of Scottville. The taxes are levied and due July 1, and become delinquent after August 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period.

NOTE 5: DEPOSITS AND INVESTMENTS

At year end, the carrying amount of the Authority's deposits was \$977,528 and the bank balance was \$979,471 of which \$500,000 was covered by federal depository insurance and \$479,471 was uninsured and uncollateralized. The authority has no investments as of September 30, 2007. The authority has the following risk disclosures:

Interest Rate Risk – The authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The authority has no investment policy that would further limit its investment choices. As of September 30, 2007, the authority has no investments that meet the above criteria.

Concentration of Credit Risk – The authority places no limit on the amount the district may invest in any one issuer.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 6: CONTINGENCIES

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2005, 2006 and 2007, either have not commenced or have not been completed.

NOTE 7: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

NOTE 8: CONCENTRATION OF CREDIT RISK

For the fiscal year ended September 30, 2007, the Authority was reimbursed by the State of Michigan for 38.6208% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage will be recalculated after total eligible expenses for all transits are determined based on audited figures.

NOTE 9: PENSION

The Authority has established a Simplified Employee Pension Program for all employees who are at least 21 years of age, received at least \$450 in compensation and have completed one year of service. Ludington Mass Transportation Authority contributes 5% of gross wages of each eligible participant each year. Total pension cost for the years ended September 30, 2007 and 2006 were \$28,766 and \$28,240 respectively. The covered payroll for the year ended September 30, 2007 was approximately \$619,666 and total payroll was \$653,412.

In addition, the Authority has a section 457 plan which allows employees to defer a portion of their wages into individual retirement annuities which are owned by each employee.

ADDITIONAL INFORMATION

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Demand response	\$ 149,043	\$ 145,747
Contracted services	<u>130,549</u>	<u>111,112</u>
 TOTAL OPERATING REVENUES	 <u><u>\$ 279,592</u></u>	 <u><u>\$ 256,859</u></u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total 2007</u>	<u>Total 2006</u>
Labor:					
Operating salaries and wages	\$ 339,959	\$	\$	\$ 339,959	\$ 325,482
Other salaries and wages	31,300	73,815	130,327	235,442	227,941
Dispatchers salaries and wages	78,011			78,011	69,228
Fringe benefits					
Other fringe benefits	103,330	29,133	46,865	179,328	190,085
Pension	19,825	2,489	6,452	28,766	28,240
Services					
Advertising/promotion expense			6,200	6,200	5,875
Other services	4,428	15,726	21,638	41,792	44,162
Materials and supplies consumed:					
Fuel and lubricants	94,438	392	2,143	96,973	98,240
Tires and tubes	12,873			12,873	13,311
Other materials and supplies	7,219	53,421	16,529	77,169	68,014
Utilities			36,118	36,118	33,432
Casualty and liability cost:					
Liability and property damage insurance	29,775		21,653	51,428	74,383
Purchased Services	24,500			24,500	
Miscellaneous expenses:					
Travel	83		6,422	6,505	4,122
Association dues and subscriptions			1,868	1,868	1,428
Leases and rentals		1,558	434	1,992	3,172
Depreciation	<u>281,621</u>	<u>15,848</u>	<u>11,089</u>	<u>308,558</u>	<u>294,443</u>
TOTAL EXPENSES	<u>\$ 1,027,362</u>	<u>\$ 192,382</u>	<u>\$ 307,738</u>	<u>\$ 1,527,482</u>	<u>\$ 1,481,558</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULES OF NON-OPERATING REVENUES
YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PROPERTY TAXES	\$ 237,288	\$ 232,002
STATE SOURCES		
State of Michigan Operating Grants		
Local Bus Operating Assistance (Act 51)		
Prior year adjustment – 2002		(9,414)
Prior year adjustment – 2003	(5,745)	
Prior year adjustment – 2004	9,391	
Prior year adjustment – 2005	14,658	
2006	(2,983)	471,985
2007	451,413	
Reverse Commute	<u>37,500</u>	
	<u>504,234</u>	<u>462,571</u>
FEDERAL SOURCES		
U.S. Department of Transportation		
Operating Grant – Section 5311		
Contract 07-0246/Z2	197,647	
Contract 02-0061-Z15/R1	(118)	203,404
Contract 02-0061-Z13/R1	1,398	(629)
Contract 02-0061-Z4		
Contract 02-0061-Z10	2,136	
Rural Transit Assistance Program	3,071	1,215
Reverse Commute	<u>37,500</u>	
	<u>241,634</u>	<u>203,990</u>
OTHER		
Interest Income	51,216	32,948
Gain on sale of fixed assets	4,111	2,367
Maintenance service and other	<u>6,766</u>	<u>13,740</u>
	<u>62,093</u>	<u>49,055</u>
TOTAL NON-OPERATING REVENUE	<u>\$ 1,045,249</u>	<u>\$ 947,618</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULES OF CAPITAL GRANTS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
State of Michigan capital grants:		
Contract 02-0061-Z14	\$	\$ 31,513
Contract 02-0061-Z17	11,093	
Contract 02-0061-Z16	<u>23,266</u>	
Total State of Michigan capital grants	<u>34,359</u>	<u>31,513</u>
Federal capital grants		
U.S. DOT capital grant		
Contract 02-0061-Z14		126,052
Contract 02-0061-Z16	93,064	
Contract 02-0061-Z17	<u>56,371</u>	
Total Federal capital grants	<u>149,435</u>	<u>126,052</u>
TOTAL CAPITAL GRANTS	<u>\$ 183,794</u>	<u>\$ 157,565</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2007**

	<u>RTAP</u>	<u>JARC</u>	<u>Operations</u>	<u>Total</u>
Labor	\$	\$ 27,345	\$ 626,067	\$ 653,412
Fringe benefits		8,473	199,621	208,094
Services		2,762	45,230	47,992
Materials and supplies		7,950	179,065	187,015
Utilities		1,436	34,682	36,118
Casualty and liability insurance		2,088	49,340	51,428
Purchased services		24,500		24,500
Miscellaneous expense	3,071	351	4,951	8,373
Leases and rentals		95	1,897	1,992
Depreciation			308,558	308,558
	<u>\$ 3,071</u>	<u>\$ 75,000</u>	<u>\$ 1,449,411</u>	<u>\$ 1,527,482</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Section 5311</u>	<u>Operating Assistance</u>
Expenses:		
Labor	\$ 626,067	\$ 626,067
Fringe benefits	199,621	199,621
Services	45,230	45,230
Materials and supplies	179,065	179,065
Utilities	34,682	34,682
Casualty and liability insurance	49,340	49,340
Miscellaneous expense	4,951	4,951
Leases and rentals	1,897	1,897
Depreciation	<u>308,558</u>	<u>308,558</u>
 TOTAL EXPENSES	 <u>\$ 1,449,411</u>	 <u>\$ 1,449,411</u>
Less ineligible expenses:		
Depreciation:		
Grant assets	276,141	276,141
Audit fees	6,200	
Maintenance on County vehicles	4,275	4,275
Capital grant expenses not capitalized		
Entertainment expenses	68	68
Dues	<u>95</u>	<u>95</u>
 Total ineligible expenses	 <u>286,779</u>	 <u>280,579</u>
 NET ELIGIBLE EXPENSES	 <u>\$ 1,162,632</u>	 <u>\$ 1,168,832</u>
 Maximum Section 5311 reimbursement 17.00%	 <u>\$ 197,647</u>	
 Maximum State operating Assistance 38.6208% of eligible expenses		 <u>\$ 451,412</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
MILEAGE DATA
YEAR ENDED SEPTEMBER 30, 2007**

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2007. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

	<u>Public Transportation Mileage</u>
DEMAND RESPONSE	
First quarter	93,366
Second quarter	95,324
Third quarter	56,865
Fourth quarter	<u>80,942</u>
TOTAL DEMAND RESPONSE	<u><u>326,497</u></u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF VEHICLE HOURS AND PASSENGERS**

September 30, 2007	Passengers					Total Passengers
	Vehicle Hours	Regular Passenger	Senior Passenger	Handi- Capped Passenger	Senior Handi- Capped Passenger	
First Quarter	6,651	20,324	5,528	13,283	1,260	40,395
Second Quarter	6,849	22,133	5,890	13,168	1,291	42,482
Third Quarter	6,274	15,634	5,676	12,631	1,225	35,166
Fourth Quarter	5,801	13,882	5,501	12,364	1,115	32,862
	<u>25,575</u>	<u>71,973</u>	<u>22,595</u>	<u>51,446</u>	<u>4,891</u>	<u>150,905</u>

September 30, 2006	Passengers					Total Passengers
	Vehicle Hours	Regular Passenger	Senior Passenger	Handi- Capped Passenger	Senior Handi- Capped Passenger	
First Quarter	6,784	19,416	5,427	12,812	1,127	38,782
Second Quarter	6,829	20,481	6,039	12,761	1,079	40,360
Third Quarter	6,585	18,067	5,737	12,616	1,113	37,533
Fourth Quarter	6,030	13,634	5,548	11,883	1,208	32,273
	<u>26,228</u>	<u>71,598</u>	<u>22,751</u>	<u>50,072</u>	<u>4,527</u>	<u>148,948</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF FINANCIAL ASSISTANCE
FEDERAL AND STATE
YEAR ENDED SEPTEMBER 30, 2007

Federal grantor/Pass through grantor Program title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Beginning Receivable/ (Deferral)	Receipts	Disbursements	Adjustments	Ending Receivable/ (Deferral)
<u>U.S. Department of Transportation</u>								
<u>Passed through MDOT:</u>								
Operating assistance Section 5311	20.509	07-0246/Z2	\$ 197,647	\$	\$ 183,019	\$ 197,647	\$	\$ 14,628
Operating assistance Section 5311	20.509	02-0061/Z15/R1	203,404	29,549	23,228		(117)	6,204
Operating assistance Section 5311	20.509	02-0061/Z10	2,136		2,136	2,136		
Operating assistance Section 5311	20.509	02-0061/Z13/R1	1,398		1,398	1,398		
R-TAP Training	20.509	N/A	3,071		2,847	3,071		224
Reverse Commute		02-0246/Z1	37,500		28,824	37,500		8,676
Capital Grant Section 5309	20.500	02-0061/Z16	93,064		93,064	93,064		
Capital Grant Section 5309	20.500	02-0061/Z17	56,371		44,371	56,371		12,000
TOTAL FEDERAL ASSISTANCE			<u>\$ 594,591</u>	<u>\$ 29,550</u>	<u>\$ 378,887</u>	<u>\$ 391,187</u>	<u>\$ (117)</u>	<u>\$ 41,732</u>
<u>Michigan Department of Transportation</u>								
Operating assistance Act 51		2007	\$ 451,413	\$	\$ 457,596	\$ 451,413	\$	\$ (6,183)
Operating assistance Act 51		2006		16,632			(2,983)	13,649
Operating assistance Act 51		2005		(5,330)	9,590		14,658	(262)
Operating assistance Act 51		2004		(4,781)	4,610		9,391	
Operating assistance Act 51		2003		6,753	1,008		(5,745)	
Reverse Commute		07-0246/Z1	37,500		28,824	37,500		8,676
Capital grants		02-0061/Z16	23,266		23,266	23,266		
Capital grants		02-0061/Z17	11,093		11,093	11,093		
TOTAL STATE OF MICHIGAN ASSISTANCE			<u>\$ 523,272</u>	<u>\$ 13,274</u>	<u>\$ 535,987</u>	<u>\$ 523,272</u>	<u>\$ 15,321</u>	<u>\$ 15,880</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

November 27, 2007

To the Transit Committee
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the financial statements of the business-type activities of Ludington Mass Transportation Authority as of and for the year ended September 30, 2007, which collectively comprise Ludington Mass Transportation Authority basic financial statements and have issued our report thereon dated November 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ludington Mass Transportation Authority' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ludington Mass Transportation Authority internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ludington Mass Transportation Authority internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Ludington Mass Transportation Authority ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Ludington Mass Transportation Authority financial statements that is more than inconsequential will not be prevented or detected by Ludington Mass Transportation Authority internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Ludington Mass Transportation Authority internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether Ludington Mass Transportation Authority' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Transit Committee, management and the Michigan Department of Transportation and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

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www.harrisgroupecpa.com

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SUPPLEMENTARY SCHEDULE OF INELIGIBLE COSTS
YEAR ENDED SEPTEMBER 30, 2007**

<u>Program</u>	<u>Description of Ineligible Costs</u>	<u>Ineligible Cost</u>
Federal Transit Authority		
A) Operating Grants 07-0246	1) Depreciation: Deprecation accrued on assets purchased with Contributed capital must be deducted as an ineligible expense.	\$ 276,141
	2) Expenses for the maintenance of County vehicles	4,275
	3) Entertainment expenses	68
	4) Capital grant expenses not capitalized	
	5) Ineligible portion of association dues	<u>95</u>
	TOTAL INELIGIBLE EXPENSES FOR STATE OPERATIONS	280,579
	5) Audit fees are ineligible for Section 5311	<u>6,200</u>
	TOTAL INELGIBLE EXPENSE FOR SECTION 5311	<u><u>\$ 286,779</u></u>